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Russian Federation

Wine

Russian wine and spirits regulations updated 2007

Approved by:

Eric Wenberg, ATO Director
American Embassy, Moscow

Prepared by:

Natalia Comizzoli

Report Highlights:

Russia has engaged in a flurry of new rulemaking with wine and spirits. March 6, the Government resolved a long term conflict in law that made using new excise and customs labels on wines imported before July 1, 2006, very difficult. It may soon take steps defining natural wines' regulation and changing excise taxes. Some government steps establish different rules for imported versus domestic wine. The wine and spirits market is still growing in Russia due to the economic boom.

Includes PSD Changes: No
Includes Trade Matrix: No
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[RS]

The Russian Government has made many recent updates to its laws on wines and spirits and contemplates even more changes.

Relabeling:

The Russian Federation issued Resolution No. 132, effective March 6, 2007, that allows importers to apply customs and excise stamps on wines and spirits held by wholesaler's before the restamping deadline of March 31, 2007. Many importers have needed this change and millions of bottles have been in legal limbo since July 1, 2006, and remain unsold and unstamped. This resolution fixes one problem, but many importers still can't get stamps. This problem has been described more fully in many prior reports, lastly in GAIN RS 6322, dated December 30, 2006. March 7, 2007, ATO Moscow released a "Notice to Exporters" requesting any exporter aware that a Russian importer holds unstamped U.S. origin product to contact atomoscow@usda.gov immediately.

Health Labeling:

Russia's Ministry of Health watchdog the Federal Service for Consumer Rights Protection and Human Well Being (Rospotrebnadzor) has issued an Instructive Letter 0100/2284-07-32 of March 6, 2007, explaining that the new format for an alcohol health warning (required by Government Resolution No. 770 of December 15, 2006 and Order of Minister of Health No. 49 of January 19, 2007) will be mandatory in 6 months following the date of the official laws introduction – February 1, 2007. This means the effective date is August 1, 2007. This new effort initially was reported in GAIN, RS 7301, dated February 14, 2007.

Definition of Natural Wine:

The Federal Customs Service (FTS) of the Russian Federation in late January sent letters to heads of regional customs offices explaining the conditions a wine must meet in order to be called "natural." The new criteria are expected to result in increases in the cost of importing foreign wines. Russian wines are not yet affected by the new rules.

The letter states that imported wines, in order to be called natural, may not have more than 15 percent ethyl alcohol, and must be made as a result of full or partial fermentation of whole or crushed berries, fresh grapes, or fresh grape must (Unfermented or fermented juice of grapes). Moreover, they may not contain added ethyl alcohol or additives influencing taste and/or smell. There are limits of sulfites.

The rules are primarily expected to affect semi-dry and semi-sweet wines. Such wines could face excise duties of 162 rubles for every 1 liter of pure spirit. That means that the price of the average bottle of such wine could increase by 20 rubles (almost \$1.00).

The new rules, which already have come into force with Customs, could have poor consequences for wine importers. Many semi-dry and semi-sweet wines cannot be considered natural under the new rules and excise duties automatically will increase. For example, the excise tax on a bottle of semi-sweet wine that contains 13 percent alcohol would be 15.8 rubles, up from 2 rubles – an increase of nearly 800 percent. Importers think the new FTS rules are discriminatory. For example, Russian wines are not affected by the changes. Under the current state standard, semi-dry and semi-sweet Russian wines may still be called "natural."

Market situation

According to Euromonitor International, in 2006 the Russian alcoholic drinks market total volume sales accounted for almost 13.2 billion liters, which represented volume sales growth of 6.7% over the previous year. The faster growth was due to the strong preference for added value in products – most notably in spirits, where volume sales were declining as value sales were growing.

Market value growth of 19% outpaced volume growth due to increasing sales of more expensive wine. Even though Russians have started to develop knowledge of more sophisticated drinks, the consumption of wine has remained still much lower than of beer or spirits, mainly vodka. Vineyards in Russia have been downsizing for the last 10 to 15 years so that Russian wine bottlers have been increasingly counting on imported wine materials. In 2006, Russia was importing a large selection of wine grapes and raw materials from over 35 nations, Russia's wine exports, however, are negligible, amounting to less than 1% of its imports. In 2006, Russian wine sales declined along with further development of more sophisticated consumer taste for elite and New World wines.

The beginning of 2006 was significant for the whole Russian market of alcoholic drinks, as new changes to the Spirits Law were introduced. In addition, in March 2006 Russian banned imports of Moldavian and Georgian wines. Georgia and Moldova largely depend on Russia in terms of wine sales, as before the ban, Georgia wines had an estimated 12% market share in Russia and Moldavian wines accounted primarily for the low and middle-income segment of the market.

Red wine remained the leader of the Russian total wine market. About 60% of imports are red wine, which are the most popular among Russian consumers. In 2006, the total volume sales of still, red wine accounted for 296 million litres. The interest in white wine is growing; however, sales remain traditionally lower in comparison to red wine. The volume sales of still white-wines accounted for about 244.2 million litres in 2006.

In 2006, the market of elite wine continued expanding. One of the major factors of the elite wine market development is the increasing quality of retail trade services. The bulk of expensive wine is sold through supermarkets in key cities such as Moscow and St. Petersburg that sell half of the elite drinks volume available in trade outlets. Considerable quantities of wine in volumes sales are made at bars and restaurants. In addition, specialized boutiques have also helped to promote wine culture and increase the sales of more expensive wines. The elite wine comprises wine imported mostly from foreign countries, like France, Italy, Germany, Chile, Argentina, the USA, the Republic of South Africa and Australia.

The recent Moldavian and Georgian wine import bans have stimulated other countries to try to fill the gap. Russia's positive macroeconomic indicators and growth in consumers' disposable income will also allow them to buy more premium products and shop in alcoholic drinks boutiques. Imported wine was earlier considered a product for luxury or holiday occasions but will become an everyday drink in Russia. Moscow is the world's most expensive city and wine markets are growing quickly.